

## ChatGPTTime-Out: Will Artificial Intelligence Take Over the Financial Planning Industry?

*In the grand symphony of progress, where each new technological note is sharper than the last, we find ourselves in an era that's less "dial-up tone" and more "quantum leap." Yes, we've come a long way from the days when a floppy disk was the epitome of cutting-edge storage (and even then, 'floppy' felt like a generous description). In this whimsical journey through the rabbit hole of tech evolution, buckle up as we navigate through the realms of progress, where even your grandma's refrigerator is now smarter than your college roommate (no offense to Dave, but his idea of a smart fridge was one that could hold a six-pack without freezing the eggs). So, dear reader, grab your gadgets, charge your wireless earbuds, and let's dive into the dazzling, sometimes bewildering, and always entertaining world of technological advancement. Welcome to the future – where even our toasters have touchscreens, and your thermostat is likely judging your Netflix choices.*

Full disclosure: ChatGPT wrote that first paragraph. All I did was prompt it by typing "Write a witty introduction about the advancement of technology." It didn't quite nail my humor in prose form, but maybe in time generative AI will get better at that as well.

### The Impact of Technology

Technology has made an indelible impact on the experience of human existence and continues to do so with each iteration of change and improvement. The printing press was born in 1440 by Johannes Gutenberg, allowing the written word to be more widely accessible. The spoken word then took a large leap forward in 1876 with Alexander Graham Bell's invention of the telephone.

Fast forward only a few generations, the personal computer arrived in the 1970s. The mobile phone came in the 1980s, and the world wide web in the 1990s. What happens when you combine these individual advancements into one "device" that can fit in the pocket of a pair of pants? It really does feel like one plus one, plus one equals an infinite possibility set, especially when you consider<sup>1</sup>:

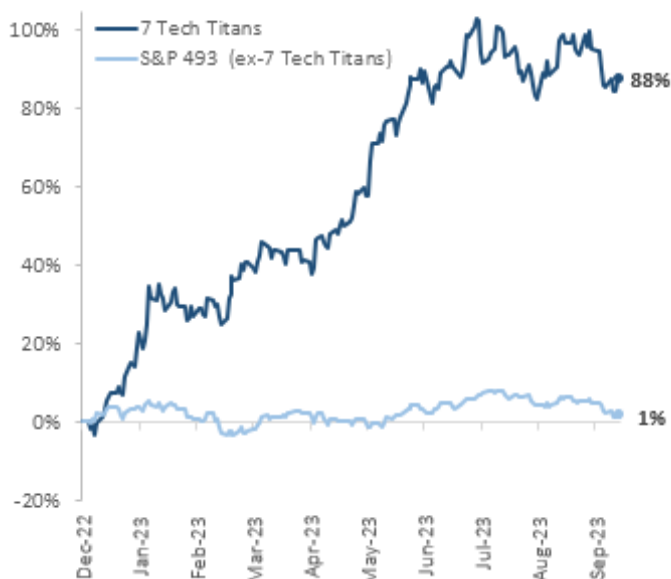
- **81.6% of Americans**, totaling 270 million people, own a smartphone as of 2023.
- There are roughly **6.92 billion** smartphone users across the world (or **86.29%** of the global population) as of 2023.
- The average American spends **5 hours and 24 minutes** on their mobile device each day.
- Americans check their phones on average **96 times per day**, or once every ten minutes.
- **59.16% of website traffic** comes from mobile devices, as of 2022.

As we highlighted in our most recent Wellspring Portfolio and Market Insights slide deck, investors have been betting heavily on tech during 2023 – with the focus squarely on the "magnificent seven" stocks leading nearly the entire S&P 500.

1. Zippia. "20 Vital Smartphone Usage Statistics [2023]: Facts, Data, and Trends On Mobile Use In The U.S." Zippia.com. Apr. 3, 2023, <https://www.zippia.com/advice/smartphone-usage-statistics>

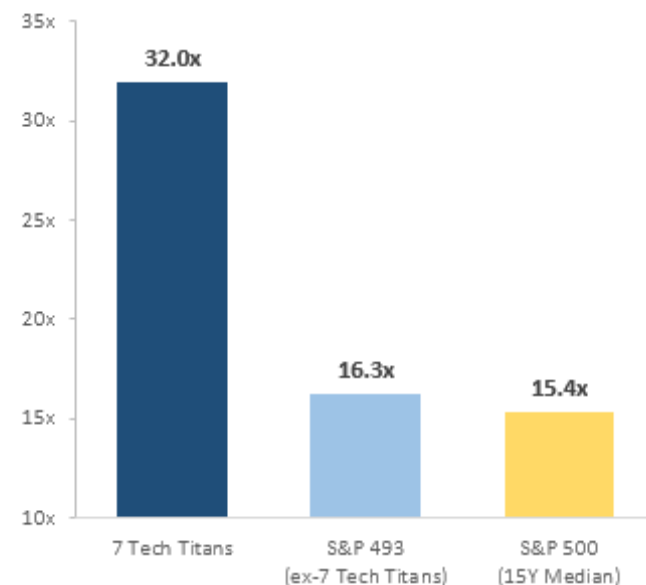
## Year-to-Date Performance in 2023

7 Tech Titans vs the S&P 493



## The "AI Valuation Premium" is in Full Effect

Next 12-month Price to Earnings (P/E) Multiples



Source: MarketDesk Research

Disclosures: Data is based on constituents of the S&P 500. The 7 Tech Titans include Apple (APPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Tesla (TSLA), and Meta (META). Latest available data as of 9/30/2023.

The performance chart on the left separates the S&P 500 into two groups:

1. The seven tech titans, which includes the leading tech firms exposed to the AI theme, and
2. The remaining companies in the S&P 500, which we refer to as the "S&P 493".

The seven tech titans, represented by the dark blue line, have produced an average return of 88% in 2023 as investors chase the Artificial Intelligence theme. In contrast, the remaining S&P 493 stocks have produced a market cap-weighted return of only 1% (i.e. when the seven tech titans are excluded).

## What is Artificial Intelligence and how does it work?<sup>2</sup>

Artificial intelligence (AI) is the simulation of human intelligence processes by machines, especially computer systems. Specific applications of AI include expert systems, natural language processing, speech recognition, and machine vision. AI systems work by ingesting large amounts of labeled training data, analyzing the data for correlations and patterns, and using these patterns to make predictions about future states. New, rapidly improving generative AI techniques can create realistic text, images, music, and other media. AI programming focuses on cognitive skills that include the following:

- **Learning** - This aspect of AI programming focuses on acquiring data and creating rules for how to turn it into actionable information. The rules, which are called algorithms, provide computing devices with step-by-step instructions for how to complete a specific task.

2. Tech Target. Definition artificial intelligence (AI) techtarget.com. Nov. 2023, <https://www.techtarget.com/searchenterpriseai/definition/AI-Artificial-Intelligence>

- **Reasoning** - This aspect of AI programming focuses on choosing the right algorithm to reach a desired outcome.
- **Self-correction** - This aspect of AI programming is designed to continually fine-tune algorithms, and ensure they provide the most accurate results possible.
- **Creativity** - This aspect of AI uses neural networks, rules-based systems, statistical methods, and other AI techniques to generate new images, new text, new music and new ideas.

## Will AI change industries?

A common question (and fear) is whether AI will forever change certain industries and eliminate jobs. According to a working paper by Harvard economist James Bessen, only one of the 270 detailed occupations listed in the 1950 US Census has since been eliminated by automation. The one exception: an elevator operator. A McKinsey study published in 2017 titled “Harnessing Automation for a Future that Works” indicated very few jobs can be fully automated.

I asked ChatGPT “Can AI replace my family office?”, to which it responded:

*While AI technology has made significant strides in various fields, including finance and wealth management, it's important to note that the role of a family office often involves a highly personalized and nuanced set of services. As of my last knowledge update in January 2022, AI has not reached a point where it can fully replace the functions and emotional intelligence provided by a family office.*

ChatGPT offers several reasons why AI is unlikely to replace a family office:

- **Personalized relationships** - Family offices typically build long-term relationships with their clients, understanding not just their financial goals but also their family dynamics, values, and unique needs. AI lacks the emotional intelligence and interpersonal skills required to navigate these complex relationships.
- **Holistic planning** - Family offices often provide comprehensive financial planning services that go beyond simple investment strategies. They may handle estate planning, tax optimization, philanthropy, and more. While AI can assist in certain aspects, it may struggle with the holistic and interconnected nature of these services.
- **Decision-making in complex situations** - Many decisions within a family office context involve a deep understanding of the family's dynamics and long-term goals. AI may lack the intuition and contextual understanding required to make decisions in highly complex or emotionally charged situations.
- **Adaptability & creativity** - Family offices often need to adapt to changing circumstances and provide creative solutions to unique challenges. AI, while excellent at processing data and providing insights, may struggle with the adaptability and creativity required in certain situations.
- **Trust & confidentiality** - Trust is a crucial element in the relationship between a family office and its clients. While AI can offer secure data handling, the personal touch and trust-building abilities of human professionals are often considered irreplaceable.
- **Navigating legal & regulatory frameworks** - Family offices must navigate complex legal and regulatory landscapes. Human professionals, with their ability to interpret and apply nuanced regulations, currently outperform AI in this area.

- ***Handling unpredictable events*** - Family offices often deal with unforeseen events, such as sudden changes in the market, family emergencies, or geopolitical shifts. The adaptability and real-time decision-making required in such situations are areas where AI may currently fall short.

No where does ChatGPT say that it can't help create a budget (it can), or that it can't explain an income tax question (it can), or that it can't teach you about certain investment (it can). What it *does say* is that the human component of the family office (the relationship building, the understanding of family dynamics, and technical recommendations based on contextual clues of those family dynamics) cannot currently be replaced by AI.

It's essential to recognize that AI can be a valuable tool to augment the capabilities of a family office, enhancing data analysis, risk management, and operational efficiency. However, human touch, emotional intelligence, and the ability to navigate complex personal and financial situations are aspects where AI has limitations. As technology continues to advance, the relationship between AI and family offices may evolve, but complete replacement seems unlikely in the near term.

Many RIAs say that they offer “family office services”, which is another way of saying they offer decoupled solutions to certain parts of the holistic financial planning process. I'd argue that ChatGPT and other technologies are starting to do that as well – and they will continue to learn how to do those things better, faster, and more efficiently moving forward. Will AI technology take over the financial planning industry? I don't think it will take it over, but it could take certain tasks over, and thus it will likely change how our industry operates.

It is imperative, therefore, for financial professionals to determine how to utilize these technological advances in their planning practices. At Wellspring, we will always look to evolve “what we do”. But equally, (or I would argue, more importantly), we will continue to differentiate through “how we do it”; focusing on the parts of our job that may never be fully automated: the application of emotional intelligence, family governance, personalized relationships, and holistic planning.

We appreciate the confidence you have placed in Wellspring to be your trusted advisor. Please feel free to contact us at any time to discuss changes to your financial situation.

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